

July 2008

"SBA - Your Small Business Resource"

U.S. Small Business Administration
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All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.

MESSAGE FROM THE DIRECTOR

First & foremost, I would like to thank those who attended in the Annual SBA Small Business Week Awards banquet in Billings. It was a great success! It is always a pleasure to recognize small business owners and advocate champions from across the state. Thank you also to those whom nominated these outstanding entrepreneurs and small business advocate champions. *See article and picture on page 2.* Start thinking about 2009 candidates you may want to nominate, as nomination information will be mailed out in September.

Our specialists have been busy traveling throughout the state conducting lender trainings. We are happy to include your bank on the tour and can customize any training needed. Please call John Donovan at 406-441-1087 to set up your bank's SBA Lender Training. If needed, we can also conduct training over the phone via Ready Talk. The Montana District Office is also planning a statewide lenders conference to be held September 24-25, 2008, in Polson. **Mark your calendars!**

Another great training opportunity, offered through MEDA (Montana Economic Development Association), is Credit Analysis. It is scheduled for October 6-8th in Butte. Visit <http://www.medamembers.org/butteiedc.doc> to register. Course highlights include: business credit analysis, profit & loss statements, quality indicators, and making credit decisions.

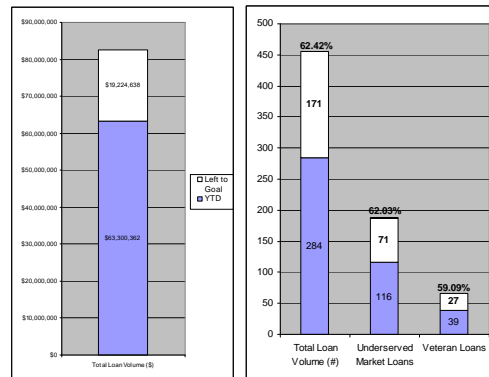
As we are in our last quarter of fiscal year 2008, we are in our final push in order to reach our loan volume goals. See below to see how we are sitting. Although we have not reached the 75% mark with most of our goals, we are confident that with your help we will be able achieve and exceed our FY2008 goals.

Update on Montana District Office Goals for FY 2008

Third quarter has come and gone, and we only have one quarter left to reach our fiscal year goals. As of June 30, 2008, we are 76.7% of our way to reaching our total loan volume (\$) goal with \$63,300,362, accounting for 284 loans which is 62.42% of our total loan volume (#) goal.

Of the 284 loans, 116 have been to underserved markets (or 62.03% of our FY08 goal) and 39 to veterans (59.09% of our FY08 goal). **If you know you have done a loan to an underserved market or veteran, but are not sure if it was coded correctly, please contact Crystal at 406-441-1089 or crystal.baker@sba.gov, and we will ensure it gets credited correctly.**

*loan goals include both 7(a) loans and 504 loans.



IMPORTANT PRE-PAYMENT PENALTY LANGUAGE

The following paragraph must appear in all notes and loan authorizations (including SBA Express/Patriot Express).

Loan Prepayment:

Notwithstanding any provision in this Note to the contrary:

Borrower may prepay this Note. Borrower may prepay 20 percent or less of the unpaid principal balance at any time without notice. If Borrower prepays more than 20 percent and the Loan has been sold on the secondary market, Borrower must:

- Give Lender written notice;
- Pay all accrued interest; and
- If the prepayment is received less than 21 days from the date Lender receives the notice, pay an amount equal to 21 days' interest from the date lender receives the notice, less any interest accrued during the 21 days and paid under subparagraph b., above.

If Borrower does not prepay within 30 days from the date Lender receives the notice, Borrower must give Lender a new notice.

Additionally, the following paragraph must always appear in notes and loan authorizations for loans with a maturity of 15 years or more.

Additional payment charges apply. When in any one of the first three years from the date of initial disbursement Borrower voluntarily prepays more than 25% of the outstanding principal balance of the loan, Borrower must pay to Lender on behalf of SBA a prepayment fee for that year as follows:

- During the first year after the date of initial disbursement, 5% of the total prepayment amount;
- During the second year after the date of initial disbursement, 3% of the total prepayment amount; and
- During the third year after the date of initial disbursement, 1% of the total prepayment amount.

More on SBA SOP 50-10(5)

The revised SOP 50 10(5) will be effective for applications received by SBA on or after August 1, 2008. For lenders submitting requests through delegated processes (PLP, SBA Express, Patriot Express, Export Express or Community Express), the revised SOP will apply to requests for a loan number received by SBA on or after August 1, 2008. The revised SOP can be found at www.sba.gov/tools/resourcelibrary/sops.

As part of this discussion, there are two issues concerning the 504 program that CDCs have asked SBA to reconsider. The first is the provision that prohibits a CDC from providing interim financing on its own projects. The second is the requirement that there be an alternative source of repayment if an applicant is using a recently obtained home equity loan as all or part of its required borrower's equity contribution. The version of the SOP does not address these issues as they are not considered technical corrections or clarifications. Therefore, any change to the SOP to address these issues must be approved through SBA's internal policy clearance process.

Loan Servicing and Liquidation

Guidance on loan processing for all SBA loan programs is included in this revised SOP 50 10. Until SOP 50 50 and SOP 50 51 are updated to include SBA Express and the Pilot Loan Programs (Patriot Express, Export Express and Community Express), the servicing and liquidation guidance contained in the program guides governing SBA Express and the Pilot Loan Programs remains in effect.

Future Updates

SBA plans to update the SOP every six months. This version of the SOP includes policy changes implemented prior to January 1, 2008. We expect the initial update to include program enhancements related to Small/Rural Lender Advantage and Community Express, as well as other program modifications implemented in the past five months.

Additional Information

Lenders, CDCs and other interested parties may continue to send suggestions concerning the SOP to SBA at SOP5010Modernization@sba.gov. This e-mail box is set up to receive only.

Questions regarding SOP 50 10(5) should be directed to John Donovan in the local SBA field office.

Small Business Week Awards Banquet a Success

Montana SBA's 2008 small business award winners were honored at the Annual Small Business Awards Banquet on May 1, 2008 at the Billings Convention Center in Billings, MT.

Montana SBA District Director Michelle Johnston gave awards to each winner. There were approximately 100 attendees that honored the winners.

SBA always looks forward to this event each year where we get a chance to honor the small businesses that are so vital to the economy of Montana.

Start thinking about small businesses you may want to nominate for one of SBA's small business awards for 2009 and look for the 2009 Small Business Award Nomination form forthcoming in September.



Left to right: Carol Willis (First Interstate Bank – Billings) pictured with 2008 Montana Business Person of the Year Bill Mills (2M Company, Inc.) and wife Jean along with Montana District Director Michelle Johnston.

New BEAR Program

The Helena Area of Chamber of Commerce and Montana Business Assistance Connection (MBAC) announce a new partnership to provide a service for businesses not only located in the Helena area, but in all of Lewis & Clark, Broadwater, and Meagher Counties. The BEAR (Business Expansion And Retention) program is a collaborative effort of area professionals to provide business assistance. Also joining the partnership are CTI, the Helena College of Technology, the Helena Job Service and SCORE. The resources available through this partnership are tremendous and will provide valuable information for area businesses to operate a successful and profitable business.

The overall concept is very simple; business interested in being assisted by an outreach partner from the BEAR program should contact MBAC at 447-1510 to set up an appointment. Two BEAR outreach partners will then meet with the business owner and collect information about the business and its operations during an interview session. The BEAR team then meets to assess the information gathered and identifies areas of opportunity and/or need. All of the information is completely confidential. With the consent of the business owner, the appropriate resources will contact the client and arrange a meeting to discuss how best to assist them in strengthening and growing their business.

The BEAR team can offer assistance in the following areas: Business Assessment, Business Plans, Education and Training, Customer Service, Facility Location & Expansion, Financing & Access to Capital, Human Resources & Workforce Management, Manufacturing, Marketing & Positioning, Technology Resources, Regulatory Assistance, State & Local Government. There is no fee to be a participant in the BEAR program.

To schedule a meeting, please call Montana Business Assistance Connection at 447-1510. No business is too small, all are important to growth and vitality of our area.

Economic Stimulus Act of 2008 Benefits Small Business

Many of us have either already received or are expecting soon our economic stimulus checks from the IRS. Those checks are an important part of the Economic Stimulus Act of 2008, but for small businesses, there are other provisions in the law with the potential for far greater benefit.

The most important thing to remember about the act's small business benefits is that the special bonus depreciation provision expires at the end of 2008 and the Section 179 expensing provision expires at the end of your business tax year that begins in 2008. Time is definitely of the essence to take advantage of these opportunities.

The act allows far more depreciation deductions on purchases of most types of tangible property and computer software bought this year. These deductions reduce the taxable income of the business or its owners, with the potential to dramatically reduce your 2007 or 2008 business tax year liability. This means you will recover a far larger portion of the price of property placed in service this year through tax savings than you normally would. Your business will benefit from the additional productivity from the new machinery or equipment, you will benefit from the tax savings, and the economy will benefit from the additional economic activity your investment generates. Talk about have your cake and eat it too!

The additional deductions fall in two categories: Section 179 expensing and a Special Depreciation Allowance. Section 179 of the tax code allows businesses to write off investments in eligible property immediately instead of depreciating it over time.

The normal limit for the Section 179 write-off is \$128,000 total for your business tax year, but for eligible property purchased and placed in service in your business tax year beginning in 2008, the limitation is almost doubled to \$250,000. The \$250,000 deduction amount is reduced only when a business purchases more than \$800,000 of eligible property.

Let me repeat that: for an eligible company and property, you will be able to write off completely against your taxable income up to \$250,000 of investment in property you place in service in the 2008 tax year so long as you do not purchase more than \$800,000 of eligible property that year. This can create a tremendous cash flow advantage to you and your business.

The second provision of the act is the Special Depreciation Allowance. This allowance is in addition to the Section 179 write off and allows the business to take depreciation of 50 percent of the cost of the property after taking the 179 expense. Then on the 50 percent that is left, you still get to take your full first year depreciation. To qualify for the Special Depreciation Allowance, the original use of the property must begin with the taxpayer after December 31, 2007. In other words, the property must be "new" property.

For the eligible equipment that you buy before the end of this calendar year and after the beginning of your 2008 tax year, you can get up to three deductions in your 2008 tax year. For example, if you purchase and place into service eligible property that costs you \$450,000 on August 1, 2008, and your 2008 business tax year starts July 1, 2008, you can have the 179 expense of \$250,000, the Special Depreciation Allowance of 50 percent of the remainder, \$100,000 and still take the regular first year depreciation on the remaining \$100,000 of basis. On property with a 5-year tax life, that could mean a write-off of \$370,000 in your 2008 business tax year for an investment of \$450,000. If you purchase and place into service this same property after December 31, 2008, but still in your 2008 business tax year, you can still take a 179 expense up to a total of \$250,000 on all eligible property purchased in your 2008 tax year.

If you want to really leverage the tax savings, the U. S. Small Business Administration's loan programs are designed to help small businesses grow. Because of the long-term nature of both the 7a and 504 loan programs, your payment on an SBA loan this year could easily be less than the tax savings you receive so you could actually generate cash for your business in 2008 by financing the equipment purchase with an SBA guaranteed loan. Contact the Montana District SBA office at 406-441-1081 to find a participating lender in SBA's 7a or 504 loan programs. Visit www.sba.gov to learn more about these programs.

The Special Depreciation Allowance also helps with vehicle purchases, increasing the allowable first year depreciation on trucks and vans weighing less than 6,000 pounds to 350 percent of the normal maximum (from \$3,160 to

\$11,160) and on automobiles to 370 percent of the normal maximum (from \$2,960 to \$10,960).

As always, there are exceptions. You will need to consult your tax advisor before making any decisions based on the 2008 Economic Stimulus Act. The Section 179 write-off is only available to companies that purchase less than \$800,000 of eligible assets in the tax year and the Section 179 expensing limit for SUVs remains \$25,000. Also, since these allowances are deductions from taxable income, they will only benefit companies that have profits to offset.

The SBA provides a Depreciation Calculator, fact sheet, on-line seminar and links to additional information on the act at <http://www.sba.gov/stimulus/>. The Internal Revenues Service provides additional in-depth information about the Act at

- Business Provisions of the Economic Stimulus Act of 2008
<http://www.irs.gov/newsroom/article/0,,id=183867,00.html>
- IRS To Issue Guidance on Special 50-Percent Depreciation Allowance
<http://www.irs.gov/newsroom/article/0,,id=181364,00.html>
- 2008 Economic Stimulus Act Provides Tax Benefits to Businesses
<http://www.irs.gov/newsroom/article/0,,id=179227,00.html>

The Small Business provisions of the Economic Stimulus Act of 2008 are an excellent opportunity for you to invest in the equipment you need to take your business to new levels of productivity while providing great cash flow benefits from the tax savings you will experience this year.

SBA Staff Changes

Small Business Administration's Administrator Steven Preston was nominated and sworn in by President Bush to serve as the Secretary of the Housing and Urban Development Department. Sandy Baruah has been nominated and will be serving as SBA's Administrator.

Region VIII's Regional Administrator, Elton "Mick" W. Ringsak retired effective June 30th. Utah District Director Stan Nakano will serve as Acting Regional Administrator until the position is filled.

The Montana District staff wish both Mick and Steve the best of luck in all their future endeavors.

CONTRACTORS CORNER

Calculating Indirect Rate

When you are submitting proposals to the Federal Government it is very important to know what your overhead or indirect rate is. This can be calculated by using the formula of $P/B=R$. Where P stands for Pool, B is Base and R is Rate.

In general the 'Pool' is a pool of costs that you identify as general in nature and not direct. That would be Overhead costs or G & A costs. The 'Base' is a cost that is specific in nature and is allocated to a particular cost objective. That would be direct labor, direct materials, or direct travel. Another thing you have to keep in mind with indirect costs is that they have to be allowable under FAR Part 31. Any unallowable costs have to be deducted from the pool before you make the calculation. Some examples of unallowable costs are interest, donations, general advertising, etc.

Under this scenario we will say the company has overhead of \$100,000.00 which we will say is the pool. The direct labor on all contracts is \$500,000.00 which we will say is the base. Now you need to divide \$100,000.00 by \$500,000.00 to get the rate which comes out to 20%. The rate of 20% would be what you would apply to a new contract as your overhead rate or indirect rate.

Keep in mind that this is just one example of calculating the rate. If you choose to use a different pool and split out your indirect costs into several tiers, you will have to look at the bases differently. The above example is probably the easiest method.

MONTANA SBA LOAN ACTIVITY FY-08 (10/01-06/30)

(Ranked by number of SBA loan approvals)

Bank Name	\$	#	Holding Company	\$	#
YELLOWSTONE BANK	\$3,101,800	29	GLACIER BANCORP, INC.	\$5,837,800	57
STOCKMAN BANK OF MONTANA	\$4,546,800	26	YELLOWSTONE HOLDING COMPANY	\$3,101,800	29
VALLEY BANK OF HELENA	\$1,492,300	22	STOCKMAN FINANCIAL CORPORATION	\$4,546,800	26
FARMERS STATE BANK	\$2,947,400	18	FARMERS STATE FINANCIAL CORPORATION	\$2,947,400	18
MONTANA COMMUNITY FINANCE CORPORATION	\$8,112,000	15	WELLS FARGO & COMPANY	\$5,397,400	13
WESTERN SECURITY BANK	\$1,275,500	15	U.S. BANCORP	\$259,300	12
WELLS FARGO BANK, NATIONAL ASSOCIATION	\$5,397,400	13	FIRST INTERSTATE BANCSYSTEM, INC.	\$2,939,000	11
U.S. BANK NATIONAL ASSOCIATION	\$259,300	12	MOUNTAIN WEST FINANCIAL CORPORATION	\$2,509,100	8
BIG SKY ECONOMIC DEVELOPMENT CORPORATION	\$6,290,000	11	CAPITAL ONE FINANCIAL CORPORATION	\$360,000	7
FIRST INTERSTATE BANK	\$2,939,000	11	MONTANA SECURITY INC.	\$620,000	7
BIG SKY WESTERN BANK	\$294,000	7	AMERICAN HERITAGE HOLDINGS	\$225,000	5
GLACIER BANK	\$1,103,000	7	BANKCDA	\$497,500	4
INDEPENDENCE BANK	\$620,000	7	MISSOULA FCU	\$568,500	4
FIRST SECURITY BANK OF MISSOULA	\$1,673,000	6	POPULAR NORTH AMERICA, INC.	\$2,584,500	4
MOUNTAIN WEST BANK, NATIONAL ASSOCIATION	\$340,000	6	CAPITA CORPORATION	\$1,960,000	3
BORREGO SPRINGS BANK, N.A.	\$225,000	5	F.S.B. HOLDING COMPANY	\$660,900	3
BANCO POPULAR NORTH AMERICA	\$2,584,500	4	FLATHEAD HOLDING COMPANY OF BIGFORK	\$1,230,000	3
BANKCDA	\$497,500	4	GREAT NORTHERN BANCSHARES, INC.	\$678,400	3
CAPITAL ONE, NATIONAL ASSOCIATION	\$270,000	4	HEARTLAND FINANCIAL USA, INC.	\$789,400	3
MISSOULA FCU	\$568,500	4	INNOVATIVE FINANCE CORPORATION	\$17,500	3
CAPITAL ONE BANK (USA), NATIONAL ASSOCIATION	\$90,000	3	MONTANA COMMUNITY BANKS, INC.	\$936,952	3
CIT SMALL BUSINESS LENDING CORPORATION	\$1,960,000	3	BB&T CORPORATION	\$3,057,000	2
FIRST SECURITY BANK OF HELENA	\$660,900	3	CIENA CAPITAL, LLC	\$50,000	2
FLATHEAD BANK OF BIGFORK	\$1,230,000	3	FIRST COMMUNITY BANCORP, INC.	\$500,000	2
ROCKY MOUNTAIN BANK	\$789,400	3	INTER-MOUNTAIN BANCORP, INC.	\$298,700	2
SUPERIOR FINANCIAL GROUP, LLC	\$17,500	3	JORGENSEN HOLDING COMPANY	\$274,500	2
THREE RIVERS BANK OF MONTANA	\$678,400	3	TETON BANCSHARES, INC.	\$92,900	2
BRANCH BANKING AND TRUST COMPANY	\$3,057,000	2	TREASURE STATE BANK	\$243,000	2
BUSINESS LOAN CENTER, LLC	\$50,000	2	WEST ONE BANK	\$272,435	2
COMMUNITY BANK, INC.	\$884,452	2	BANK OF AMERICA, NATIONAL ASSOCIATION	\$31,000	1
FIRST COMMUNITY BANK	\$500,000	2	BANK OF MONTANA	\$686,375	1
FIRST NATIONAL BANK & TRUST CO OF WILLISTON	\$274,500	2	BUTTE BANK SHARES, INC.	\$135,500	1
FIRST NATIONAL BANK OF FAIRFIELD	\$92,900	2	CHOTEAU BANCORPORATION, INC.	\$217,000	1
FIRST SECURITY BANK	\$298,700	2	FBOP CORPORATION	\$125,000	1
HIGH PLAINS FINANCIAL, INC.	\$1,417,000	2	FIRST NATIONAL BANCORP, INC.	\$105,000	1
MOUNTAIN WEST BANK OF KALISPELL, NATIONAL ASSOCIATION	\$2,169,100	2	HIGH TRUST BANK	\$1,280,000	1
TREASURE STATE BANK	\$243,000	2	LAKESIDE BANK HOLDING COMPANY	\$150,000	1
WEST ONE BANK	\$272,435	2	RICHLAND FCU	\$125,000	1
BANK OF AMERICA, NATIONAL ASSOCIATION	\$31,000	1	S.B.T. FINANCIAL, INC.	\$230,000	1
BANK OF MONTANA	\$686,375	1	SALISH & KOOTENAI BANCORPORATION	\$275,000	1
CAPITAL ACCESS GROUP	\$468,000	1	STERLING FINANCIAL CORPORATION	\$25,000	1
COMMUNITY BANK-MISSOULA, INC.	\$52,500	1	WATFORD CITY BANCSHARES, INC.	\$172,700	1
EAGLE BANK	\$275,000	1			
FIRST CITIZENS BANK OF BUTTE	\$135,500	1			
FIRST INTERNATIONAL BANK & TRUST	\$172,700	1			
FIRST NATIONAL BANK OF MONTANA, INC.	\$105,000	1			
HIGH TRUST BANK	\$1,280,000	1			
MCKENZIE COUNTY BANK	\$150,000	1			
RICHLAND FCU	\$125,000	1			
SAN DIEGO NATIONAL BANK	\$125,000	1			
STERLING SAVINGS BANK	\$25,000	1			
THE CITIZENS STATE BANK OF CHOTEAU, MONTANA	\$217,000	1			
THE STATE BANK OF TOWNSEND	\$230,000	1			